

January 12, 2012

Karen Ross, Secretary
California Department of Food and Agriculture
1220 N Street Sacramento, CA 95814

RE: Request to Broaden Scope of Hearing to
Include the Class 4b Formula

Dear Secretary Ross:

We are writing on behalf of California's dairy producers to request that if a hearing is announced for Class 4a that you broaden the scope of the hearing to include consideration of proposals to change the Class 4b pricing formula. More specifically, we have been engaged in discussions pertaining to changes to the whey factor in the Class 4b formula.

We recognize that the Department's recent decision (effective September 1, 2011) made changes to the Class 4b whey factor. Despite those changes, the Class 4b price has remained well below the Class III price, the comparable price in the federal orders. The contribution of whey to the Class 4b price has remained at \$0.65 from September thru December 2011 while the whey contribution to the Class III price has averaged \$2.50, a difference of \$1.85 per hundredweight. Accordingly over the same four-month period, the Class 4b price has averaged \$2.63 lower than the federal order Class III price. Clearly, alternatives to the current whey factor that could serve to narrow this wide disparity in pricing need to be fully considered.

Of equal importance, this widening price disparity resulting from the 4b whey factor severely hinders a California dairy farmer's ability to make effective use of dairy futures to hedge their milk and help to protect themselves from the negative impacts of narrowing margins due to volatile milk prices and rising feed costs. During the first eight months of 2011, the basis between Class III and Class 4b averaged \$1.68; since the Department's decision, this basis has grown to \$2.63 per hundredweight. Many dairy analysts see the price strength to continue in the dry whey market thru late 2012 further extending the negative impacts of this milk price misalignment on California's dairy farm families.

As you know, the California Food and Agricultural Code Section 62062. states, with respect to classified prices including class 4b, that *"...the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products."* Clearly, the current 4b formula does not meet this section of the California Food and Agricultural Code.

We understand that your staff is currently reviewing the hearing petition received from California Dairies, Inc. regarding changes to the Class 4a pricing formula. We wanted to raise your awareness to this critical issue regarding the Class 4b formula and its importance to the dairy farmers of California.

By calling for a public hearing, the Department will provide the California dairy industry the opportunity to fully discuss improvements to the current Class 4b whey factor. Thank you for your consideration in expanding the scope of this prospective hearing.

Sincerely,

Handwritten signature of R. S. Jay in black ink.

Land O'Lakes, Inc.

Handwritten signature of Gary M. Stene in black ink.

Dairy Farmers of America
Western Area Council

Handwritten signature of Hank Perkins in black ink.

Security Milk Producers

Handwritten signature in blue ink, appearing to be W. H. W. W.

Western United Dairymen

Handwritten signature in black ink, appearing to be R. H. H.

Milk Producers Council

Handwritten signature in black ink, appearing to be J. A. Angel.

California Dairy Campaign

cc: Sandra Schubert
Kevin Masuhara
Candace Gates